

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Berg Analyst: Nicole Kwon Bill Number: AB 1798  
 Related Bills: See Prior Analysis Telephone: 845-7800 Amended Date: April 20, 2006  
 Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Disaster Loss Deduction/Excess Loss Carryover/Specified Counties/  
 December 17, 2005 To January 3, 2006 Rainstorms, Related Flooding & Slides &  
 Any Other Related Casualties

\_\_\_\_ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

\_\_\_\_ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

\_\_\_\_ FURTHER AMENDMENTS NECESSARY.

\_\_\_\_ DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED February 14, 2006, STILL APPLIES.

\_\_\_\_ OTHER – See comments below.

**SUMMARY**

This bill would allow taxpayers special tax treatment, called disaster loss treatment, for losses sustained as a result of the severe rainstorms and related events that occurred in the specified counties.

This analysis will not address the bill's changes to the Property Tax Law as they do not impact the department or state income tax revenue.

**SUMMARY OF AMENDMENTS**

The April 20, 2006, amendments made the revision for the following counties as eligible to receive disaster loss treatment as a result of the severe rainstorms and related events: Del Norte, Humboldt, Lake, Mendocino, Napa, Sonoma, and Trinity. The amendments also specified the disaster period from December 17, 2005, to January 3, 2006.

Board Position:

\_\_\_\_ S      \_\_\_\_ NA      \_\_\_\_ NP  
 \_\_\_\_ SA      \_\_\_\_ O      \_\_\_\_ NAR  
 \_\_\_\_ N      \_\_\_\_ OUA      X PENDING

Legislative Director

Date

Bran Putler

4/24/06

As a result of the amendments, an Implementation Consideration and new revenue estimate is included below. The remainder of the department's analysis of the bill as amended February 14, 2006, still applies.

## **POSITION**

Pending.

## **IMPLEMENTATION CONSIDERATION**

Author's office may want to include a double-jointing language in the event that proposed changes to the disaster loss treatment provisions contained in AB 2735 (Nava) is enacted before this bill is enacted.

## **ECONOMIC IMPACT**

### **Revenue Estimate**

Based on data and assumptions discussed below, this provision would result in the following revenue losses.

Estimated Revenue Impact of AB 1798 Effective for Tax Years BOA 1/1/2005 Assumed Immediate Enactment Date		
(Millions)		
2006/07	2007/08	2008/09
Minor loss	-\$0.6	Minor loss

Minor loss = Less than \$500,000

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### **Tax Revenue Discussion**

The revenue impact of this bill is dependent on the dollar value of real and personal property losses. The loss for tax purposes is calculated as the lesser of the reduction in fair market value (FMV) or the adjusted basis. This value is reduced by insurance reimbursements, \$100 per incident and 10% of adjusted gross income (AGI).

According to the Federal Emergency Management Agency (FEMA), private, public, and commercial damages are estimated to exceed \$500 million statewide. This estimate assumes that total losses equal \$250 million for the specified counties in this bill and that real and personal property damages account for 70% or \$175 million.

It is estimated that 10% or \$18 million of losses are uninsured and 90% or \$157 million are insured. Because some insurance policies cover a fixed amount of damages rather than the FMV, it is estimated that only 70% of damages would be reimbursed by an insurance policy. These adjustments result in combined uninsured real and personal property losses of \$65 million [ $\$18 \text{ million} + (\$157 \text{ million} \times 30\%)$ ]. These uninsured losses are reduced by \$2 million to account for basis and AGI limitations, resulting in \$63 million in possible deductions.

It is estimated that 50% or \$31 million in deductions will be used during the year of the disaster and 5% or \$3 million will never be reported and therefore will not impact this bill. Assuming an average marginal tax rate of 6% on the remaining \$29 million ( $\$63 \text{ million} - \$31 \text{ million} - \$3 \text{ million}$ ), this bill's revenue loss approximates \$1.7 million ( $\$29 \text{ million} \times 6\%$ ). If total losses are utilized over a five-year period, the revenue impact for fiscal year 2006/2007 would be \$0.3 million.

#### **LEGISLATIVE STAFF CONTACT**

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